

BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

IN THE MATTER OF:

Application of Duke Energy Progress,
LLC for Adjustments in Electric Rate
Schedules and Tariffs and Request for
an Accounting Order

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DOCKET NO. 2018-318-E

Direct Exhibits

of

BILLIE S. LACONTE

On Behalf of

Nucor Steel – South Carolina

March 4, 2019



J. POLLOCK
INCORPORATED

Billie S. LaConte
Direct Testimony

EXHIBIT LIST

LaConte Exhibits	Description
1	Impact of Modified EDIT Rider
2	Impact of Accumulated Depreciation Walk Forward
3	Recommended Coal Ash Deferred Costs
4	Recommended Harris COLA Deferred Costs Amortization Term
5	Recommended NRC Requirements – Fukushima and Cybersecurity Deferred Costs
6	Impact of Lowering ROE to Industry Average
7	Equity Ratios for A- Rated Utilities
8	Impact of Reducing Common Equity Ratio

DUKE ENERGY PROGRESS, LLC
Impact of Modified EDIT Rider
Test Year Ending December 31, 2017
South Carolina Retail (\$000)

Without DERP, Shorten Unprotected PP&E Amortization, Shorten Deferred Revenue Amortization

<u>Line</u>	<u>Description</u>	<u>Federal EDIT</u>			<u>Deferred Revenue</u>	<u>NC EDIT</u>	<u>Total</u>	<u>Adjusted for Return, Taxes and PSC Fee</u>
		<u>Protected</u>	<u>Unprotected</u> <u>PP&E Related</u>	<u>Non PP&E Related</u>				
1	Regulatory Liability Including Gross Up updated 12/31/2018	(152,438)	(58,254)	867	-	(5,382)	(215,207)	
2	Estimated Transition of Protected to Unprotected Regulatory Liability during 2018	5,640	-	(5,640)	-	-	-	
3	Deferred Revenue for Federal Tax Rate Change as of 12/31/2018	-	-	-	(14,960)	-	(14,960)	
4	DERP Deferral Balance for Solar Rebate as of 9/30/2018	-	-	-	-	-	-	
5	Other Projected Changes in Regulatory Tax Liability	-	-	-	-	4,242	4,242	
6	Regulatory Liability for Federal Tax Change Including Gross Up for Year 1	(\$146,798)	(\$58,254)	(\$4,773)	(\$14,960)	(\$1,140)	(\$225,925)	
7	Annual Amortization Period	3.70%	20.00%	20.00%	50.00%	100.00%	12.39%	
8	Annual Amortization Amount	(\$5,432)	(\$11,651)	(\$955)	(\$7,480)	(\$1,140)	(\$26,656)	(\$26,591)
9	Years of Rider Amortization	27	5	5	2	1		

Source:

Supplemental Direct Testimony of Laura Bateman, Updated Bateman Exhibit 3, page 1 of 4.

DUKE ENERGY PROGRESS. LLC

Impact of Accumulated Depreciation Walk Forward

Test Year Ending December 31, 2017

South Carolina Retail (\$000)

Impact to Accumulated Depreciation	
Additional Depreciation Expense	(\$84,346)
Retirements	\$39,752
Cost of Removal	\$18,106
Salvage	(\$5,409)
Adjustment to Accumulated Depreciation	(\$31,898)
Pretax ROR	9.36%
Revenue Requirement Adjustment	(\$2,985)

Sources: Bateman Exhibit 1, responses to ORS AIR 1-6 and Nucor 3.

DUKE ENERGY PROGRESS. LLC
Recommended Coal Ash Deferred Costs
Test Year Ending December 31, 2017

		SC Retail (\$000)				
Line	Description	As of Dec. 2017			As of Dec. 2018	Difference
		Proposed	Recommended	Difference		
		(1)	(2)	(3)	(4)	(5)
1	Balance for Amortization	\$46,487	\$24,013	\$22,474	\$44,493	\$1,994
2	Amortization Period in years	5	20		20	
3	Amortization Expense	\$9,297	\$1,201	(\$8,097)	\$2,225	(\$7,073)
4	Statutory tax rate	24.95%	24.95%		24.95%	
5	Impact to income taxes	(\$2,320)	(\$300)	\$2,020	(\$555)	\$1,765
6	Net Expense	\$6,978	\$901	(\$6,077)	\$1,670	(\$5,308)
7	Projected Impact to Rate Base	\$27,911	\$17,120	(\$10,790)	\$31,722	\$3,811
8	Cost of Capital	9.36%	9.36%		9.36%	
9	Return	\$2,611	\$1,602	(\$1,010)	\$2,968	\$357
10	Revenue Requirement	\$9,589	\$2,503	(\$7,086)	\$4,638	(\$4,951)

Source: Response to ORS Audit 5-2 (Supplemental)

DUKE ENERGY PROGRESS. LLC
Recommended Harris COLA Deferred Costs Amortization Term
Test Year Ending December 31, 2017
South Carolina Retail (\$000)

<u>Line</u>	<u>Description</u>	<u>SC Retail (\$000)</u>		
		<u>Proposed</u>	<u>Recommended</u>	<u>Difference</u>
		(1)	(2)	(3)
1	Harris COLA Balance for recovery	\$6,715	\$6,715	
2	Amortization Period in years	5	48	
3	Amortization Expense	\$1,343	\$140	(\$1,203)
4	Statutory tax rate	24.95%	24.95%	
5	Impact to income taxes	(\$335)	(\$35)	\$300
6	Revenue Requirement	<u>\$1,008</u>	<u>\$105</u>	<u>(\$903)</u>

Source: DEP Response to ORS 1st and Continuing Audit Request, Item 1-6.

This is not included in rate base.

Harris plant remaining life = 28 years; (2046-2018)

Harris plant remaining life = 28 years; (2046-2018) 28.0

Life Extension 20.0

Total RL 48.0

DUKE ENERGY PROGRESS. LLC

**Recommended NRC Requirements -
Fukushima and Cybersecurity Deferred Costs
Amortization Term and Cost of Capital**

Line	Description	SC Retail (\$000)		
		Proposed	Recommended	Difference
		(1)	(2)	(3)
1	Fukushima / Cybersecurity Balance for recovery	\$5,529	\$4,975	
2	Amortization Period in years	5	38	
3	Amortization Expense	\$1,106	\$131	(\$975)
4	Statutory tax rate	24.95%	24.95%	
5	Impact to income taxes	(\$276)	(\$33)	\$243
6	Net Expense	\$830	\$98	(\$732)
7	Projected Regulatory Asset	\$4,194	\$4,746	\$0
8	Cost of Capital	9.36%	9.36%	
9	Return	\$392	\$444	\$52
10	Revenue Requirement	\$1,222	\$542	(\$680)

Source: SC-1702

This is not included in rate base.

Nuclear average remaining life at 12/31/2016 is 19.7 years

At 12/31/2018 RL is 17.7 years. 18.0

Proposed Life Extension 20.0

Total RL 38.0

DUKE ENERGY PROGRESS, LLC
Impact of Lowering ROE to Industry Average
Test Year Ending December 31, 2017
South Carolina Retail (\$000)

Proposed ROE for the Test Year Ending December 2017

<u>Line</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-tax</u>
1 Debt	47.00%	4.06%	1.91%	1.91%
2 Equity	<u>53.00%</u>	10.50%	<u>5.57%</u>	<u>7.45%</u>
	100.00%		7.47%	9.35%

3 Revenue conversion factor 1.3378

4 Rate Base \$1,512,603

Revised ROE for the Test Year Ending December 2017

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-tax</u>
Debt	47.00%	4.06%	1.91%	1.91%
Equity	<u>53.00%</u>	9.68%	<u>5.13%</u>	<u>6.86%</u>
	100.00%		7.04%	8.77%

Impact of Change in ROE (\$8,795)

Sources:

Bateman Exhibit 1, page 2, Supplemental

DUKE ENERGY PROGRESS
Equity Ratios for A- Rated Utilities
Year Ending December 31, 2017

Utility	Financial			
	Corp. LT	Common Equity/ Book Capital (%)		
	Rating S&P	2017Y	2016Y	2015Y
American Electric Power Company, Inc.	A-	44.13	43.83	46.33
Appalachian Power	A-	47.48	46.29	45.53
Indiana Michigan Power Company	A-	42.53	44.07	46.35
Kentucky Power	A-	43.25	43.40	42.75
Ohio Power	A-	55.94	54.38	47.78
Public Service Company of Oklahoma	A-	45.63	47.31	46.27
Southwestern Electric Power Company	A-	45.74	44.55	47.17
Baltimore Gas and Electric Company	A-	54.20	52.09	51.70
Central Hudson Gas & Electric Corporation	A-	51.31	50.75	50.37
Central Maine Power Company	A-	63.50	61.98	59.94
Consolidated Edison Company of New York, Inc.	A-	48.11	48.27	47.79
Duke Energy Corporation	A-	43.40	44.88	48.29
Duke Energy Ohio, Inc.	A-	60.14	61.19	62.07
Duke Energy Carolinas	A-	52.68	52.87	58.11
Duke Energy Florida	A-	44.19	43.28	50.21
Duke Energy Indiana	A-	51.10	51.79	50.45
Duke Energy Kentucky	A-	43.25	43.40	42.75
Duke Energy Progress	A-	51.13	51.21	51.20
Interstate Power and Light Company	A-	49.05	48.85	49.23
Florida Power and Light	A-	55.64	61.25	60.45
Orange and Rockland Utilities, Inc.	A-	46.80	46.74	45.35
Arizona Public Service Company	A-	52.78	53.35	54.99
Kentucky Utilities	A-	58.59	58.65	58.06
Louisville Gas and Electric	A-	56.98	58.09	56.64
Public Service Company of Colorado	A-	55.85	54.81	55.41
Georgia Power Company	A-	49.69	50.03	49.92
Gulf Power Company	A-	53.51	48.26	45.98
Mississippi Power Company	A-	39.01	48.63	42.84
Southwestern Public Service Company	A-	53.79	53.40	53.78
Wisconsin Electric Power Company	A-	36.97	38.19	38.60
Northern States Power Company	A-	52.08	52.08	52.26
Average Excluding Duke Energy Progress		49.37	49.58	49.42
Duke Energy Progress	A-	51.13	51.21	51.20

Source: S&P Global Market Intelligence (February 13, 2019)

DUKE ENERGY PROGRESS, LLC**South Carolina Rate Case****Impact of Reducing Common Equity Ratio to Equal Average A- Rated Utility Common Equity Ratio****Proposed Capital Structure Test Year December 2017**

<u>Line</u>		<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-tax</u>
1	Debt	47.00%	4.06%	1.91%	1.91%
2	Equity	<u>53.00%</u>	10.50%	<u>5.57%</u>	<u>7.45%</u>
		100.00%		7.47%	9.35%
3	Revenue conversion factor				<u>1.3378</u>
4	Rate Base				<u>\$1,512,603</u>

Revised Capital Structure Test Year December 2017

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>	<u>Pre-tax</u>
Debt	50.63%	4.06%	2.06%	2.06%
Equity	<u>49.37%</u>	10.50%	<u>5.18%</u>	<u>6.94%</u>
	100.00%		7.24%	8.99%
Impact of Change in Common Equity Ratio				<u>(\$5,484)</u>

Sources:

Bateman Exhibit 1, page 2, Supplemental